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SUBJECT: NAZIF SLOWS DOWN EGYPT'S PRIVATIZATION PROGRAM

REF: A) CAIRO 01474

B) CAIRO 01493

Summary

[1](#)1. (SBU) Stock market volatility, mounting political opposition, and sectoral sensitivities are obliging the Nazif administration to reconsider the rapid pace of privatization that has been its hallmark for almost two years. The GOE is attempting a variety of countermeasures to enable the continuation of its plans, albeit more slowly. End summary.

Nazif applies the brakes

[1](#)2. (U) Until recently, the Nazif government had implemented the privatization project much more aggressively than its predecessors, who were more focused on political acceptability and limited social disturbance. The number of privatization transactions increased from 13 in FY 2003/04 to 28 in FY 2004/05 (Nazif took office in summer 2004), and to 49 in the first three quarters of FY 2005/06 (July 2005 to March 2006). Between FY 2000/01 and the end of the third quarter of FY 2005/06, transactions had increased by 158%.

[1](#)3. (U) However, the GOE has slowed the pace of the program since the start of 2006. Statistics released by the Ministry of Investment (MOI) show that the number of quarterly privatization transactions has fallen from 25 in Q1-2005/06, to 17 in Q2-2005/06, to 10 in Q3-2005/06 (January-March 2006). Proceeds from transactions in the third quarter were LE 3.3 billion, down from LE 5.1 billion in the first quarter of 2005/06.

A volatile stock market

[1](#)4. (U) The GOE last month announced that it would reduce the use of initial public offerings (IPOs) as a means of privatization, due to volatile stock market conditions and withdrawal of capital, and would instead seek principal investors for some of the major companies on its privatization agenda. Minister of Investment Mahmoud Mohieldin noted that the GOE could no longer expect an IPO to be subscribed many times over, which was the case through most of 2005. In March, the GOE was forced to postpone indefinitely an IPO of 7% of Egypt Aluminum - the largest aluminum smelter and exporter in Egypt - due to inadequate demand for the shares offered.

[1](#)5. (SBU) The fact that the GOE is now reducing the number of previously-planned IPO privatizations is one cause of the noticeable slowdown in overall transactions, at least since March. For the future, this means the administration has one less viable/lucrative option for privatization. In 2005, although not more than 20% of transactions were in the form of IPOs, these generated more than 50% of total privatization returns (for instance, in the sales of shares in petrochemical companies and Telecom Egypt). Major investor negotiations tend to be more time-consuming and challenging for the GOE than stock market offers, since long term investment considerations and not just price tend to be at stake. Nevertheless, the government is expecting considerable proceeds to be realized from strategic investor sales in the foreseeable future, through offering majority stakes (60%) in petrochemical companies Sidi Krir and AMOC.

Increasingly vocal challenges

[1](#)6. (SBU) Since the first few months of 2006, opposition to the privatization program has increased in the local media,

as papers representing trends across the political spectrum have begun to accuse the Minister of Investment of "selling Egypt." Criticism of a lack of transparency on planned sales, asset valuations, and the status of negotiations has also become more pronounced. On the rhetorical level, the GOE has responded by denying that the program has moved with excessive speed, emphasizing that privatization has been GOE policy since the Economic Reform and Structural Adjustment Program of the early 1990s, and not simply the policy of the MOI.

17. (SBU) Simultaneously, in an apparent attempt to disarm critics, the GOE has instituted an organizational change: Prime Minister Nazif in early June issued an amendment to the executive regulations of the Public Enterprise Law, stipulating that offers of public companies are to be referred first to the Economic Ministerial Group, which would include the popular pro-labor Minister of Manpower, Aisha Abdel Hadi. Such an inter-ministerial group for reviewing privatization plans existed under earlier administrations but fell into disuse under Nazif, which helped create the public impression that the MOI acted alone in deciding on privatizations.

18. (SBU) Nevertheless, a senior MOI official charged with privatization told Econoff that growing opposition could further slow the pace of the program. Complicating the problem for the MOI, according to the same official, is the more pronounced, outspoken presence of Muslim Brotherhood (MB)-affiliated representatives in the parliament since late 2005. (Comment: Opposition in parliament has often been a thorn in the side of the MOI with respect to privatization, but the problem could become even more difficult given the MB's penchant for challenging GOE policies. End comment.)

Labor unrest

19. (U) In the second half of 2005, and increasingly in early 2006, the labor force in recently privatized enterprises engaged in vocal protest against disruptions in work patterns. For instance, in early April, opposition newspaper al-Ahaly reported a labor protest that took place in front of the People's Assembly building, organized by workers of privatized Al-Nobareyah Company for Agricultural Engineering and Mechanization. A few days later, workers of the Gelatin Company of Alexandria initiated a sit-in before the Ministry of Investment, protesting the failure of the new investor who bought the company to provide them certain financial dues.

110. (SBU) The projected sale of retail chain Omar Effendi Co. - with its labor force of 6000 and high-profile history as the proud flagship of Egyptian retailing - has generated more controversy than any other sale to date (ref A) and the MOI admits that defending the privatization plan for the company has sapped considerable GOE energy. In early June, the Chairman of the Holding Company for Trade, which manages Omar Effendi, finally announced an end to four months of negotiations with the investor. The Chairman noted - without providing a timeline - that the holding company board and assembly still had to approve the sale. In like manner, protracted negotiations over the privatization of the Al Nasr Glass Factory are apparently being stymied by labor. Last week, a company official indicated that the labor syndicate committee of the factory had made additional demands that were being incorporated in the negotiations. According to opposition paper al-Wafd, the investor intended to lay off 1600 workers of the factory and retain only 200. (Comment: Both examples of prolonged inability to complete privatization negotiations signify a more cautious approach by the GOE with regard to labor, and unwillingness to provoke more protests. End comment.)

Sectoral issues

111. (SBU) Sector-specific issues also have contributed to popular opposition and thus the slowdown in the privatization program, a case in point being that of the sugar industry (ref B). Disturbances in the local market due to supply shortages and rising sugar prices over the last few months forced the GOE to cancel the privatization of four companies (Delta, Daqahliyya, Fayoum, and El Nobareyah), in favor of inviting private sector investment in new production lines in GOE-owned companies as a stop-gap measure. The pharmaceutical industry is similarly price-sensitive given GOE price controls. Since 1991, the GOE has banned the sale of a controlling stake in any pharmaceutical company, and since 1996, has permitted sales of only 40% stakes in five companies through the stock market. Announcements since January 2006 that the administration would sell a stake in the Chemical Industries Development Co. (CID) have thus met with a barrage of accusations that the GOE is abandoning social concerns. According to MOI,

sale of 40% of CID is presently being undertaken through the stock market.

Comment

12. (SBU) No longer able to ignore the negative repercussions of its crash drive to privatize, the Nazif administration is moving toward the conclusion that a gradualist approach is more appropriate in the Egyptian case. However, the public is likely to continue seeing the generation of high short-term returns - at the expense of perceived long-term national interests - as the motive for sales, unless the MOI provides a more compelling social cost-benefit argument for public consumption. End comment.